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# The Natural Rate of Interest

By

Joseph Massie



THE NATURAL RATE OF INTEREST  
BY  
JOSEPH MASSIE  
LONDON  
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*Class*

# The Natural Rate of Interest

by

Joseph Massie



A PRACTICAL GUIDE  
to  
SELECTED  
TOPICS IN  
THEORY AND  
PRACTICE OF  
INTEREST COMPUTATION

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## A Reprint of Economic Tracts

Edited by  
**JACOB H. HOLLANDER, PH. D.**  
Professor of Political Economy  
Johns Hopkins University

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**Joseph Massie**

on

**The Natural Rate of Interest**

**1750**

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## INTRODUCTION

The circumstances of Joseph Massie's life are hidden in the same irritating obscurity<sup>1</sup> that enshrouds other notable English economic writers—Vanderlint, Harris—of the middle eighteenth century. We know only of his literary productivity in the period from 1750 to 1765, and of his death—the latter recorded in a bare note in the *Gentleman's Magazine*:<sup>2</sup> "November, [1784]. In Holbourn, Mr. Joseph Massie, well known for his political writings." Some of his tracts are inscribed to statesmen of the period in the deferential manner that suggests the favor-seeking pamphleteer rather than the detached philosopher,<sup>3</sup> and this impression is confirmed by the infrequent mention of his writings or opinions in contemporary economic literature.

As a matter of fact, it is as bibliographer rather than as author that Massie figures largest in the history of economic thought. The "Fifteen Hundred, or more, Books and Pamphlets" concerning "the Commerce, Coin, and Colonies of Great Britain" which he had been "above Twelve Years in making"—though he "resided in London, and was not sparing of either Time or Money to enlarge it"<sup>4</sup>—were sold in 1760, and thereafter dispersed, lost or hidden—how and in what manner we have no knowledge. The only clue is Massie's own brief memorandum:<sup>5</sup> "Novr. 1760. Sold the whole Collection Excepting those under Five Heads—Viz—Duplicates—Tables—Abstract of Laws—Single Acts—Treaties."

But Massie left a monument to his zeal in an admirably compiled finding-list which he continued to revise and extend even after he had disposed of the actual collection, and this 'Alpha-

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<sup>1</sup> "It is surprising that the personal history of this celebrated pamphleteer is unknown." (*Notes and Queries*, February 10, 1866; 3d series, vol. ix, p. 119.)

<sup>2</sup> 1784, vol. ii, p. 876.

<sup>3</sup> The copy of Massie's "Observations upon Mr. Fauquier's Essay" (London, 1756), in the possession of the present writer is a presentation copy from the author to Lord Townshend.

<sup>4</sup> Massie, "Representation concerning the Knowledge of Commerce as a National Concern" (London, 1760), pp. 1, 14.

<sup>5</sup> Upon a slip attached to the MS. "Index"; see following note.

236755

# JO MALL ALLEGORIA

betical and Chronological Index of Commercial Books and Pamphlets," which by December, 1764 had grown to 2377 items, still serves as the most helpful guide to English economic literature before Adam Smith.

Massie's interest in economic literature was not, however, merely as bibliophile or collector. If not present from the first, the intention soon developed of utilizing the materials that he had gathered for two works, a "commercial history of Great Britain" and a treatise upon the "elements of commerce illustrated by Applications." In 1760 Massie submitted the desirability of their preparation to the commissioners of the Treasury and of the Exchequer and sought public employment therefor.<sup>1</sup> Nothing seems to have come of the proposal, and the tract in which it was urged is still of interest as defining a present need as well as suggesting an early and vivid conception that economic principles must rest upon economic induction.

The energy which was denied its larger opportunity found vent in a series of pamphlets and tracts written year after year from 1750 to 1764 and dealing with a wide range of contemporary issues of social and economic import.<sup>2</sup> Of these tracts the essay here reprinted is the earliest and one of the most important. More than any other it is concerned with an economic principle, marking a phase in Massie's mental history before the stress of contemporary issues had made him pamphleteer and tract-writer. Whether or not it be properly entitled to the distinction, accorded it by many critics since Roscher's<sup>3</sup> time, of refuting the direct association of the rate of interest with the amount of money, which two years later Hume repeated with greater simplicity but no more force—Massie's tract surely ranks as an important element in the pre-Smithian discussion of profits, and neither the doctrinal historian nor the theoretical economist may properly neglect its content.

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<sup>1</sup> British Museum, Lansdowne 1049; lettered "Massie's Catalogue of Commercial Tracts."

<sup>2</sup> "Representation concerning the Knowledge of Commerce," p. 25.

<sup>3</sup> For an apparently complete list, see Palgrave, "Dictionary of Political Economy," *sub Massie*.

<sup>4</sup> "Principles of Political Economy" (Eng. trans., New York, 1878), vol. i, p. 150 n.

The present edition is a reprint of Massie's essay as issued in 1750.<sup>10</sup> The general appearance of the title page has been preserved, the original pagination has been indicated and a few notes have been appended.

BALTIMORE, December, 1911.

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<sup>10</sup> The formal collation of the tract is as follows: Title, 1 1., preface, [iii]-iv. 5-62, 8°. As early as 1758 the tract was out of print (Massie, "Farther Observations concerning the Foundling-Hospital" (London, 1758).



AN  
ESSAY  
ON THE  
Governing Causes  
OF THE  
Natural Rate  
OF  
INTEREST;  
WHEREIN

The Sentiments of Sir WILLIAM PETTY  
and Mr. LOCKE, on that Head, are con-  
sidered.



*LONDON:*  
Printed for W. OWEN, at *Homer's Head*, near  
*Temple Bar.* MDCCL.

(Price One Shilling.)





## P R E F A C E.

**A***N Inquiry into Opinions which have been generally received and long established, is an Undertaking that will always be sure to meet with Opposition and Censure; as it is not only the Author of such Opinions, but many of those who have concurred in them, that are apt to think themselves affected by it.*

*It is this Consideration, together with Mr. Locke's eminently distinguished Abilities, and truly great Character, that makes me unwilling to call in Question, so long after his Death, any part of what he has wrote; but as it is upon a Subject of general Concern which cannot be too particularly considered; I hope, those who have already approv'd of what that Gentleman has said concerning Interest, will not disapprove of what I have wrote, unless it be for some weightier Reason, than that of differing from him; which, with the candid Part of the World, will not, I flatter myself, be looked upon as any want of Respect for his Memory; for there are few, if any, who have a greater Veneration for it, || than myself; and though I can- IV Pref. not agree with him in every Particular, yet I think, the greatest Part of what he has said upon Coin, and Commerce, is unanswerable.*

*Every one who is acquainted with Mr. Locke's Works must be satisfied, he was too great a Lover of Truth, to object against an Inquiry into any Thing he wrote; and I hope none*

*will think me wrong in taking a Liberty which he himself would have allowed, had he been living; as I have made no other Use of it, than that of endeavouring to find out what the Rate of Interest depends on, which may possibly be in some Degree useful or satisfactory at this Time, to those who are inclined to employ their Thoughts that Way.*





5

AN  
ESSAY  
ON THE  
Governing Causes of the Natural Rate  
of INTEREST, &c.



FTER Sir *William Petty* and Mr. *Locke* have said what governs the Rate of Interest, any further Considerations on the Subject may perhaps be thought unnecessary; whether they really are so or not, I will not say, but shall leave every one to judge for themselves, when they have read the following Observations upon the Sentiments of those gentlemen, which I have here collected, and shall refer to by Figures, as often as I have Occasion to mention them.||

6

*Extracts from Sir William Petty's Political Arithmetick, and Mr. Locke's Treatise on Interest, &c.<sup>1</sup>*

*From Sir W. Petty's Political Arithmetick, Third Edition, printed in the Year 1699.<sup>2</sup>*

“1. As to Money, the Interest thereof was within this fifty “Years,\* at 10*l. per Cent.* forty years ago, at 8*l.* and now at

\* Interest was reduced by Law from 10 to 8 *per Cent.* Anno 1623, and from 8 to 6 *per Cent.* in 1660.

“ 6l. no Thanks to any Laws which have been made to that Purpose, for as much as those who can give good Security, may now have it at less: But the natural Fall of Interest, is the Effect of the Increase of Money.” *Chap. 6. page 259.*

*From Mr. Locke’s Treatise on Interest, &c.*

“ 2. By natural Use, I mean that Rate of Money, which the present Scarcity of it makes it naturally at, upon an equal Distribution of it.” Folio Edition of his Works, printed in 1740. *Vol. 2. Page 6.*

“ 3. Now, I think, the natural Interest of Money is raised in two Ways. *First,* When the Money of a Country is but little, in Proportion to the Debts of the Inhabitants, one amongst other. For, suppose Ten Thousand Pounds were sufficient to manage the Trade of *Bermudas*, and that the ten first Planters carried over Twenty Thousand Pounds, which they lent to the several Tradesmen and Inhabitants of the Country, who living above their Gains, || had spent Ten Thousand Pounds of this Money, and it were gone out of the Island: ”Tis evident, that, should all the Creditors at once call in their Money, there would be a great Scarcity of Money, when that, employ’d in Trade, must be taken out of the Tradesmen’s Hands to pay Debts; or else the Debtors want Money, and be exposed to their Creditors, and so Interest will be high. But this seldom happening, that all, or the greatest Part of the Creditors, do at once call for their money, unless it be in some great and general Danger, is less and seldomer felt than the following, unless where the Debts of the People are grown to a greater Proportion; for that, constantly causing more Borrowers, than there can be Lenders, will make Money scarce, and consequently Interest high.

“ *Secondly,* That which constantly raises the natural Interest of Money, is, when Money is little, in Proportion to the Trade of a Country. For in Trade, every Body calls for Money, according as he wants it, and this Disproportion is



“ always felt. For, if *Englishmen* owed in all but one Million, “ and there were a Million of Money in *England*, the Money “ would be well enough proportion’d to the Debts; but, if two “ Millions were necessary to carry on the Trade, there would be “ a Million wanting, and the Price of Money would be raised, “ as it is of any other Commodity in a Market, where the “ Merchandise will not serve half the Customers, and there “ are two Buyers for one Seller.” *Pag. 6.*

“ 4. The lowering of Interest to *4 per Cent.* will be a Gain to “ the borrowing Merchant. For, if he borrow at *4 per Cent.* “ and his Re || turns be *12 per Cent.* he will have *8 per Cent.* & “ and the Lender Four: Whereas now they divide the Profit “ equally as *6 per Cent.*” *Pag. 7.*

“ 5. For no Country borrows of its Neighbours, but where “ there is need of Money for Trade; no Body will borrow more “ of a Foreigner, to let it lie still.” *Pag. 9.*

“ 6. So that, if the Merchant’s Return be more than his “ Use (which ’tis certain it is, or else he will not trade, &c.)” *Pag. 9.*

“ 7. It cannot well be thought, that less than one fiftieth “ Part of the Labourer’s Wages, one fourth Part of “ the Landholder’s yearly Revenue, and one twentieth Part “ of the Broker’s\* yearly Returns in ready Money, will “ be enough to drive the Trade of any Country. At least, to “ put it beyond Exception low enough, it cannot be imagin’d “ that less than one Moiety, of this, *i. e.* less than one hun- “ dredth Part of the Labourer’s yearly Wages, one eighth Part “ of Landholder’s yearly Revenue, and one fortieth Part of the “ Broker’s yearly Returns, in ready Money, can be enough to “ move the several Wheels of Trade, and keep up Commerce, “ in that Life and thriving Posture it should be; and how “ much the ready Cash of any Country is short of this Pro- “ portion, so much must the Trade be impair’d and hinder’d “ for want of Money.” *Pag. 15.*

\* Tradesmen.

“ 8. It may then so happen at the same Time, that half an Ounce of Silver, that the Year before would buy one Bushel of Wheat, will this year buy but one tenth of a Bushel; half an Ounce of Silver, that the Year before would have bought three Bushels of Oats, will this Year still buy one Bushel; and at the same || Time half an Ounce of Silver, that would the Year before have bought fifteen Pounds of Lead, will still buy the same Quantity. So that at the same Time Silver, in respect of Wheat, is nine tenths less worth than it was, in Respect of Oats two Thirds less worth, and in Respect of Lead as much worth as before. The Fall, therefore, or Rise of Interest, making immediately, by its Change, neither more nor less Land, Money, or any Sort of Commodity in *England*, than there was before, alters not at all the Value of Money in Reference to Commodities. Because the Measure of that is only the Quantity and Vent, which are not immediately changed by the Change of Interest. So far as the Change of Interest conduces, in Trade, to the bringing in, or carrying out Money, or Commodities, and so in Time to the varying their Proportions here in *England*, from what it was before; so far the Change of Interest, as all other Things that promote, or hinder Trade, may alter the Value of Money, in Reference to Commodities.” *Page 17.*

9. First, “That the Value of Land consists in this, that, by its constant Production of saleable Commodities, it brings in a certain yearly Income. Secondly, The Value of Commodities consists in this, that as portable and useful Things, they, by their Exchange or Consumption, supply the Necessaries, or Conveniences of Life. Thirdly, In Money there is a double Value, answering to both of these; 1. As it is capable, by its Interest, to yield us such a yearly Income: And in this it has the Nature of Land, (the Income of one being called *Rent*, of the other *Use*) *Page 17, 18.* 2. Money has a Value, as it is capable, by Exchange, to procure us

"the Necessaries, and Conveniences of Life, and in this it has "the Nature of a Commodity." *Page 18.*

10. "Money therefore, in buying and selling, being perfectly "in the same Condition with other Commodities, and subject "to all the same Laws of Value; let us next see how it comes "to be of the same Nature with Land, by yielding a certain "yearly Income, which we call Use or Interest. For Land "produces naturally something new and profitable, and of "value to Mankind; but Money is a barren Thing, and pro- "duces nothing, but by Compact, transfers that Profit, that "was the Reward of one Man's Labour, into another Man's "Pocket. That which occasions this, is the unequal Distri- "bution of Money; which Inequality has the same Effect too "upon Land, that it has upon Money. For my having more "Money in my Hand than I can, or am disposed to use in "buying, or selling, makes me able to lend: And another's "Want of so much Money as he could employ in Trade, makes "him willing to borrow. But why then, and for what Con- "sideration doth he pay Use? For the same Reason, and upon "as good Consideration, as the Tenant pays Rent for your "Land. For as the unequal Distribution of Land, (you hav- "ing more than you can, or will manure, and another less) "brings you a Tenant for your Land; and the same unequal "Distribution of Money (I having more than I can, or will "employ, and another less) brings me a Tenant for my "Money: So my Money is apt in Trade, by the Industry of "the Borrower, to produce more than 6 *per Cent.* to the Bor- "rower, as well as your Land, by the Labour of the Tenant, || 11 "is apt to produce more Fruits, than his Rent comes to; and "therefore deserves to be paid for, as well as Land, by a yearly "Rent." *Pag. 19.*

11. "It being only the Change of the Quantity of Wheat to "its Vent, supposing we have still the same Sum of Money in "the Kingdom; or else the Change of the Quantity of our "Money in the Kingdom, supposing the Quantity of Wheat, "in Respect to its Vent be the same too, that makes the

“Change in the Price of Wheat. For if you alter the Quantity, or Vent, on either Side, you presently alter the Price, “but no other Way in the World.” *Page 21.*

12. “That, which raises the natural Interest of Money, is “the same that raises the Rent of Land, *i. e.* its Aptness to “bring in yearly to him that manages it, a greater Overplus “of Income, above his Rent, as a Reward to his Labour. That, “which causes this in Land, is the greater Quantity of its “Product, in Proportion to the same Vent of that particular “Fruit, or the same Quantity of Product, in Proportion to a “greater Vent of that single Commodity; but that, which “causes Increase of Profit to the Borrower of Money, is the “less Quantity of Money, in Proportion to Trade, or to the “Vent of all Commodities, taken together, and *vice versá*.

“The natural Value of Money, as it is apt to yield such an “yearly Income by Interest, depends on the whole Quantity “of the then passing Money of the Kingdom, in Proportion to “the whole Trade of the Kingdom, *i. e.* the general Vent of all “the Commodities. But the natural Value of Money, in ex-  
12 “changing for any one Commodity, is the Quantity of the “trading Money of the Kingdom, designed for that || Com- “modity, in Proportion to that single Commodity and its “Vent. For though any single Man’s Necessity and Want, “either of Money, or any Species of Commodity, being known, “may make him pay dearer for Money, or that Commodity; “yet this is but a particular Case, that does not at the same “Time alter this constant and general Rule.” *Page 24.*

13. “That supposing Wheat a standing Measure, that is, “that there is constantly the same Quantity of it, in Proportion to its Vent, we shall find Money to run the same Variety “of Changes in its Value, as all other Commodities do. Now “that Wheat in *England* does come nearest to a standing “Measure, is evident by comparing Wheat with other Com- “modities, Money, and the yearly Income of Land, in *Henry* “the Seventh’s Time, and now. For supposing that *Primo* “*Hen. 7 N.* let 100 Acres of Land to *A.* for *6d per Annum*,

"per Acre, Rack-Rent, and to *B.* another 100 Acres of Land, "of the same Soil and yearly Worth with the former, for a "Bushel of Wheat per Acre, Rack-Rent, (a Bushel of Wheat "about that Time, being probably sold for about 6d.) it was "then an equal Rent. If, therefore, these Leases were for "Years yet to come, it is certain that he, that paid but 6d. "per Acre, would pay now 50s. *per Annum*, and he that paid "a Bushel of Wheat per Acre, would pay now about 25*l.* *per Annum* which would be near about the yearly Value of the "Land, were it to be let now. The Reason whereof is this, "that there being ten Times as much Silver now in the World " (the Discovery of the *West-Indies* having made the Plenty) "as there was then, it is nine Tenth's less Worth now, than it "was at that Time; that is, it || will exchange for nine-Tenths<sup>13</sup> "less of any Commodity now, which bears the same Proportion to its Vent, as it did 200 Years since; which of all other "Commodities, Wheat is likeliest to do. For in *England*, and "this Part of the World, Wheat being the constant and most "general Food, not altering with the Fashion, not growing by "Chance; but as the Farmers sow more or less of it, which "they endeavour to proportion, as near as can be guessed, to "the Consumption, abstracting the Overplus of the precedent "Year, in their Provision for the next; and *vice versa*; it "must needs fall out, that it "keeps the nearest Proportion "to its Consumption (which is more studied and designed in "this, than other Commodities) of any Thing, if you take it "for 7 or 20 Years together: Though perhaps the Plenty, or "Scarcity of one Year, caused by the Accidents of the Season, "may very much vary it from the immediately precedent, or "following. Wheat, therefore, in this Part of the World, (and "that Grain, which is the constant general Food of any other "Country) is the fittest Measure to judge of the alter'd Value "of Things, in any long Tract of Time." *Page 24, 25.*

14. "For, supposing the Balance of Trade to be equal between *England* and *Holland*, but that there is in *Holland* a "greater Plenty of Money than in *England* (which will ap-

"pear by the Lowness of the natural Use in *Holland*, and the  
"Height of the natural Use in *England*; &c." *Page 27.*

15. "Tis seldom a thriving Man turns his Land into  
"Money, to make the greater Advantage: The Examples of it  
14 "are so rare that they || are scarce of any Consideration in the  
"Number of Sellers.

"This, I think, may be the Reason, why in Queen *Eliza-*  
"*beth's Days*, (when Sobriety, Frugality, and Industry,  
"brought in daily Increase to the growing Wealth of the King-  
"dom) Land kept up its Price, and sold for more Years Pur-  
"chase, than corresponded to the Interest of Money, then  
"busily employed in a thriving Trade, which made the natural  
"Interest much higher than it is now, as well as the Parlia-  
"ment then set it higher by Law." *Pag. 28.*

"16. High Interest is thought by some a Prejudice to  
"Trade: but if we look back, we shall find, that *England*  
"never thrrove so well, nor was there ever brought into *Eng-*  
"*land* so great an increase of Wealth since, as in Queen *Eliza-*  
"*beth's and King James I. and King Charles I.* Time, when  
"Money was at 10 and 8 *per Cent.* I will not say high In-  
"terest was the Cause of it; for I rather think that our thriv-  
"ing Trade was the Cause of high Interest, every one craving  
"Money to employ in a profitable Commerce." *Pag. 34.*

17. "Indeed, I grant it would be well for *England*, and I  
"wish it were so, that the Plenty of Money were so great  
"amongst us, that every Man could borrow, as much as he  
"could use in Trade, for 4 *per Cent.* nay, that Men could bor-  
"row as much as they could employ for 6 *per Cent.* But even  
"at that Rate, the Borrowers already are far more than the  
"Lenders." *Pag. 39.*

It appears from these several Extracts, that Mr. *Locke*  
attributes the Government of the natural Rate of Interest to  
the Proportion which the Quantity of Money in a Country  
bears to the Debts of its Inhabitants one amongst another,  
15 and || to the Trade of it; and that Sir *William Petty* makes it  
depend on the Quantity of Money alone; so they only differ in

regard to Debts; for though they express themselves differently concerning Money, yet it is plain they mean one and the same Thing.

Mr. *Locke* also mentions the Profits of Trade as instrumental in raising Interest, for Extract 16, he accounts for the high Rate of Interest in Queen *Elizabeth's* Reign, by the Profits of Trade; but then he subjects them to the Proportion which the Quantity of Money bears to Trade: For (Extract 12.) he says, "That which causes Increase of Profit to the Borrower of Money, is the less Quantity of Money, in proportion to Trade, or to the Vent of all Commodities taken together, and *vice versa, &c.*" From whence it is evident he thought the Proportion which Money bore to Trade, not only governed Interest, but the Profits of Trade likewise.

These are the Sentiments of those Gentlemen, and these would have been mine, had Experience even left the Matter doubtful: But when I found Mr. *Locke's* Position relating to the Proportion of Debts clash'd with Facts it should have agreed with, and the principal Position, concerning the Proportion of Money, contradicted by the very kind of Experience which Mr. *Locke* himself points out as the best, I could not help differing from them.

#### ON THE PROPORTION OF DEBTS.

"Now I think the Natural Interest of Money is raised two ways: First, When the Money of a Country is but little, in Proportion to the Debts of the Inhabitants one amongst another." (*Extract 3.*)||

16

If Debts had so considerable an Influence over Natural Interest, as Mr. *Locke* attributes to them, one might reasonably expect to have found the present Rate of it more than half what it was 150 Years ago: For if the Debts which were then owing by the Inhabitants of this Island, one among another, were a principal Cause of Interest being so high as 10 per Cent. per Annum, the Alterations which have since hap-

pened here in that Respect, as well in private as publick Affairs, are Arguments for its being above, and not below, that Rate.

Luxury and Extravagance are much more general among private People now, than they were formerly; and these cannot increase, without producing an Increase of Debts; and the State of the Nation, in respect of publick Debt, is worse than it was 150 Years ago, almost beyond Comparison: For then the publick Revenues commonly defrayed the current Expences; whereas now, by frequent Mortgages, the Publick is, and has been for many Years, at least twice as much Money in debt, as there ever was supposed Specie in the Nation at any one Time to pay; the greater Part of which is, no doubt, owing to the Inhabitants of this Country: So that if any Inference is to be made concerning the present Rate of Interest, from a Comparison of the publick and private Debts of this Age, with those of our Ancestors, it should, according to Mr. *Locke's* Rule, be higher than it was 150 Years ago. It does not seem extravagant to suppose such a Load of Debts as this, must have raised Interest to 20 *per Cent.* but no one could well imagine it to be less than 15 *per Cent.* which being full three times as much as has for many Years been paid for Interest, sufficiently demonstrates how little the Debts of 17 People, one amongst || another, have to do with the Rate of Interest in the Country wherein they live, for any considerable Tract of Time. Nor will taking the Position in a more limited Sense, make much Difference; for we see that notwithstanding the national Debt has increased from forty-five to seventy-eight Millions since the Year 1740, (according to a State of it lately published in a Pamphlet, entitled, *Considerations upon a Reduction of the Land-Tax*)<sup>4</sup> the Rate of Interest among private People in general, is now much the same as it was at that Time: It is indeed somewhat higher to the Government than it was ten Years ago, the Reason of which I shall endeavour to shew, when I come to speak of publick Credit: At present I shall only say, that suddenly collecting great

Sums of Money does undoubtedly at the Time, raise the Rate of Interest with Numbers of private People; just as buying great Quantities of Wheat raises the Price of that particular Commodity: And thus far I agree with Mr. *Locke*: But it is manifest from what has been said, that when the Demands which occasioned such Rise is satisfied, Interest soon returns to its natural Rate: For the Price which Money bears in Times of general Danger, or publick Necessity, cannot be call'd so, any more than the Price which a Man agrees to give for Wheat can be called the natural Price for it, when the Seller takes an Advantage of the Buyer's Necessity, or cannot have the Assistance of Law to oblige him to pay for it.

It may possibly be remarked by some, that I have extended Mr. *Locke's* Position further than he designed, by bringing in publick Debts; but the Extension is only in Words, and not in Fact; for he says, "The Debts of the Inhabitants one amongst "other;" and what the Publick owes || to private People<sup>is</sup> here, or rather, what one Part of the Nation owes to the other, is as much a Debt of this Sort, as any that can be named, and only differs from other Debts in having a great Number of People engaged for the Payment of it, instead of one, or a few.

As to the Supposition which Mr. *Locke* has made to support his Opinion, concerning the Influence of Debts in this Respect, I must beg Leave to say, I neither think it right, nor can agree with him in his Conclusion.

It is natural enough to suppose the ten first Planters who went to the Island of *Bermudas*, might carry with them 20,000 l. not knowing what Sum of Money would be wanted to carry on the Trade of the Island; but then, it is as natural to think, that when they came there, and found they had brought twice as much Money as could be employed, they would send back one half of it to their Mother Country, or to some other Colony or Place where Employment could be found for it: For where is the Country that keeps ten Millions of Money at home, when only five of them are wanted, without lending the Overplus to Foreigners, as we know the *Dutch* and *Swiss* do? Or

where is the Merchant, Planter, Farmer, or Tradesman, who having 2000*l.* and can only find Employment for 1000*l.* does not lend the other to some of his Neighbours, or lay it out in a Purchase? Certainly no Man can be thought to act so imprudently, much less any Number of Men, or a whole Nation.

But if these Planters should act so contrary to their Interest, as to keep the whole 20,000*l.* in the Island, it would be impossible for them to lend it all at Interest, unless the Inhabitants are to be supposed void of common Understanding,  
19 which || is what any Man must be who will pay Interest for 200*l.* when he wants only 100*l.* and yet this is what must be done in order to the whole 20,000*l.* being lent among the People of the Island. It is therefore morally impossible this Part of Mr. *Locke's* Supposition should ever be the Case anywhere; nor is it agreeable to what he himself has in another Place mentioned: For he says, (*Extract 5.*) "That no Country borrows of its Neighbours, but where there is Need of Money for Trade: No body will borrow more of a Foreigner to let it lie still." And to this may be added, That no body will borrow of a Neighbour to let it lie still; for borrowing or not borrowing, depend not upon those who are able lend, being Foreigners or of the same Country, but upon the Want of Money, which, when Men have occasion for it, they will be glad to get from Foreigners who can lend; but they will not pay Interest for it to their Neighbours, unless they are under a Necessity of doing so.

It does not appear from the other Part of the Supposition concerning Extravagance, whether Mr. *Locke* means it of every individual Borrower of Money, or of only the greater Part of them; nor is it indeed very essential to know in which Sense it was used, for though the Latter is most probable, because it is the fairest, yet in Respect of the Conclusion it is much the same, whether it be understood in the one Sense or the other. I take it for granted therefore, that it is a general Extravagance, but not an universal one, which is there meant; in this Sense then let us inquire what Conclusions, concerning

an Alteration in the Rate of Interest, can be justly made from the Case supposed; which is, that ten of the 20,000 *l.* before-mentioned, were spent and gone out of the Island, || by the 20 People, to whom it was lent, living above their Gains.

Mr. *Locke* says, (*Extract 3.*) " 'Tis evident, that should all the Creditors at once call in their Money, there would be a great Scarcity of Money, when that employed in Trade must be taken out of the Tradesmens Hands to pay Debts; or else the Debtors want Money, and be exposed to their Creditors, "and so Interest will be high." That Money would be scarce among such of these People as were called upon to pay their Debts, is undoubtedly true; for so it must needs be with a Man who owes 200 *l.* and has got only 100 *l.* to pay it with; and that the Præmium for Money lent such Men will be high, is very certain: But there is a Necessity of having better Proof than this, to shew that Interest will be high; because part of the Præmium which Lenders receive under the Name of Interest, is, in all Cases where there is Danger of losing, a Præmium of Risque, and not of Use; and there being a very great Risque of losing where Borrowers have, by their Extravagance, spent one half of what is lent them, a considerable Part of the Praemium paid for Money by such Borrowers, is certainly a Praemium of Indemnity, and not of Use; and to call it Interest, is as improper as it would be to call that Praemium Interest, which a Merchant gives an Insurer to have his Ship or Merchandise insured against the Dangers of the Sea or Enemies: So that what is here disguised under the Name of high Interest, is in Fact no such Thing, but a Praemium of Use and Risque joined together; which may just as well be called high Insurance as high Interest, for it is as much the one as the other. || 21

If then the Praemium paid for Money by these extravagant Men, in the Case before-mentioned, is to be called Interest, and introduced as the Standard of it, there must first be taken from it so much as the Lenders receive for the Risque they run of losing what they lend, before it can be admitted into

Account; and it is easy to fix what this is at all Times, when we know at what Rate a Gentleman can borrow Money upon his Land, or a reputable Merchant or Tradesman upon his Bond or Note, (which I take to be the Standards for determining the Rates of Interest upon real and personal Securities) for we need only subtract from the Rates paid by other People, the Rates paid by the Gentleman, Merchant, or Tradesman, and the Remainders will be the Praemia of Risque; and when this Method has been taken with the Praemia paid by the Inhabitants of *Bermudas*, we shall then have the true Rate of Interest.

Suppose then, that the 20,000 *l.* brought there by the first ten Planters, was originally lent to the Tradesmen and Inhabitants of the Country at *5 per Cent. per Annum.* but that the Planters, upon calling for their Money, and finding half of it spent, and gone out of the Island, should directly insist upon having an additional Praemium of *5 per Cent.* from all those People who had spent half, or more, of what they had borrowed; would it be just to say Interest was raised to *10 per Cent.?* Certainly not; the Contrary is evident, not only from what has been already said, but also from the Rate at which the honest and prudent Part of the Inhabitants would still be able to borrow Money; which is the old Rate of *5 per Cent.* for if People's being in debt twice as much as they are able to pay, is to be assigned as a Reason for Interest rising, this  
22 Rise must certainly be confined to such extravagant || People, and cannot at all affect others, who have lived within their Gains, and are able to pay their Debts, though perhaps not without great Detriment to their Affairs: And therefore of this high Praemium of *10 per Cent.* paid for Money by the Extravagant, which, according to Mr. *Locke* is all to be called Interest, there is only one half of it really so, the other half being a Premium of Risque or Insurance, and not of Use; and consequently his Conclusion that Interest will be high in this Case, must be wrong.

It cannot be right to argue about Interest, from the Præmia which such Men pay for Money, because that is introducing Dishonesty, or Extravagance where their Contraries are always understood to be, when there is only personal Security given; as it is essential to lending upon such Security, that there be a moral and trading Certainty of Repayment, which cannot be, where Dishonesty or Extravagance prevail; and therefore all Risque, more than what is unavoidably produced by the Mutability of human affairs, must either be intirely excluded in all Considerations relating to Interest, or there will be a Necessity for allowing, there are, or may be, as many different Rates of it in a Country, at one and the same Time, as there are Chances of being paid or not paid, between an absolute Certainty of the one and the other; for by the same Rule that any one Degree of Extravagance is admitted into the Account, all others must; the Absurdity of which is obvious to every one.

The Rate of Interest in *Great-Britain* for Money lent upon personal Security, is at present about 5 *per Cent.* but if Inquiry was to be made about the Rate of it, among such sort of People as had borrowed Money on their personal Securities to employ in Trade, and spent one half of it, there || is 23 Reason to believe, they would say it was more than 5 *per Cent.* or rather, that No-body would trust them with any; one of the two it is certain must happen, and which ever it be, it will shew the Case Mr. *Locke* has put, will not admit of the Conclusion he has made.

If such People as these should not be able to borrow Money, as is most probable they would not, it cannot be right to suppose them doing what is not in their Power; and that borrowing of Money, or keeping longer the Remainder of what they had before borrowed, would be so, is evident from the general Practice of Mankind: For what Man will lend Money upon personal Security to any one, who he knows has been so extravagant as to spend half of a Sum he had before borrowed of another Person? Or what Creditor who finds half of a

Sum he has lent, squandered away by the Extravagance of a Borrower, will suffer himself to be amused with a Promise of being paid higher Interest, (if the Law did not forbid taking above 5 *per Cent.*) and not secure by the Help of Law, that half of his Money which is still in his Power to get? Reason and Experience shew, there neither are, nor can be, any such Men; or at least, that there is not a Number of them sufficient to justify quoting their Conduct as the general Practice of the World.

Much Borrowing and Lending among the Inhabitants of a Country, is not the Effect of a Want or Scarcity of Money, but of an unequal Distribution of it; when the Riches of a Country are collected into a few Hands, much borrowing naturally follows, for Affluence of Fortune induces most Men to think of Ease and Pleasure; to procure which, instead of employing their Money themselves, they must let it out to other People for them to make Profit of, reserving for the Owners a <sup>24</sup> Pro || portion of the Profits so made: But when the Riches of a Country are dispersed into so many Hands, and so equally divided, as not to leave many People enough to maintain two Families, by employing it in Trade, there can be little borrowing; for 20,000 *l.* when it belongs to one Man, may be lent, because the Interest of it will keep a Family, but if it belongs to ten Men, it cannot be lent, because the Interest of it will not keep ten Families.

It may possibly be said, Quantity of Debts must have an Influence over the Rate of Interest, because the Government during the two last Wars, paid dearer almost every successive Year, for the Money borrowed upon the publick Revenues: I grant the Government did do so; but at the same time I cannot think, this Rise of Interest was owing to an Increase of Debts, for then it must have continued high, till they were discharged; which it has not done, but fallen again soon after Peace was restored, it will be necessary therefore to look for some other Reason than Quantity of Debts, to account for the Government's having paid dearer for Money, as that will not explain the Matter.

Publick Faith is like a Merchant, whose Credit falls and rises, as his Trade declines or prospers: When the Nation is engaged in a general War, and the Event of it seems likely to be unsuccessful, or remains doubtful, publick Credit will sink, and sometimes even below that of a private Gentleman or Merchant, as it did in the Reign of King *William*, and in the last Rebellion in the Year 1745, when the Government paid dearer for Money than private People did; and for very natural and obvious Reasons; the Foundation of publick Credit, which is publick Security, was then attacked, not only by War abroad, but by Rebellion at home, and therefore from Appearances, monied Men at || that Time thought publick <sup>25</sup> Security not so good as private; whether their Apprehensions were just or not, is by no means the Question; it was sufficient if any of those who had Money to lend, imagined they were; and this, it is plain Numbers did, from the Government's having been able to borrow Money upon cheaper Terms, since the happy Defeat of the Rebels, than was done in the Year 1745, notwithstanding the Continuance of War with *France* and *Spain*, and an Increase of national Debt.

If from this low Ebb of publick Credit, we take a View of it in Time of settled Peace, when both publick Safety, and the established Government, are far removed from all Appearances of Danger, it will be found high above, as it was before much below, private Credit: The Government will then be able to raise Money upon cheaper Terms, than either the Gentleman or the Merchant; not merely because the Security is better, but partly because it is far more extensively known than the Security given by private People. The Inhabitants of this Country in general, and those of many other Countries know, that publick Faith here has been kept sacred, and that what they lend up on it, is as secure, if not more so, than it can be in any other Country; and this, together with the lower Rate of Interest in *Holland*, and other Countries, is what has enabled the Government to borrow Money in Time of Peace, and even sometimes in War, cheaper than private People here

can, or in other Words, below the natural Rate of Interest in this Country.

What has been said of the Government, is also in some Degree applicable to the *East-India* Company, whose Credit is so well established as to enable them to borrow Money 26 cheaper than private Merchant, landed Gentleman, or even the Government, can do; to this it is true, the Condition on which their Bonds are issued \*, contributes more than a little, for they may be esteemed ready Cash running at Interest, and consequently are a great convenience to Bankers, and many other monied Men, who cannot suffer, or do not chuse, to have their Money engaged so as not to be able to command it immediately, or at a short Notice: The Want of this Convenience would oblige such People to keep large Sums by them in Specie unemployed, or might probably compel them, either to enter more into Trade than they do now, or to supply others with Money for that Purpose, with more Readiness, and at more easy Rates than they do at present: But how far this Consideration may merit Attention at this Time, is not to my Purpose.

Now I am speaking of the Government borrowing Money, I cannot omit mentioning the happy Effects which preserving publick Faith inviolable, has produced: I think it has done nothing less than saved the Nation from Ruin; for it seems difficult to conceive how the many millions of Money which have been borrowed to carry on the Wars of King *William*, Queen *Anne*, and his present Majesty could have been found, if the *Dutch* and others had not been able to lend, or how they could have been borrowed upon Terms that would not have involved the Nation beyond a Possibility of recovering by just Measures, if Interest had not been much lower in *Holland* than 27 it was here; which, in this Respect, must be allowed to have

\* The *East-India* Company's Bonds are payable upon six Months Notice, and the Company receives them as Cash in Payment for Goods bought at their Sales, when six Months Interest is due upon them.

been highly advantageous to *Great-Britain*, however disadvantageous it may have been with Regard to our Commerce: And there is no Doubt to be made, but that acting with the same Equity will always secure to this Nation the like Aid from Foreigners upon any future Emergency, which is very well Worth considering; for if ever publick Necessity, and a Distrust abroad, of this Government's being able or willing to preserve publick Faith, should make borrowing very large Sums of Money at Home, to carry on a foreign War, unavoidable; it would cause such a Confusion in the Affairs of the Nation, as, I hope, will never be seen here, and might at last fall short of answering the present Necessity.

But to return: I say it is owing to the beforementioned Causes, that the Government has at one Time been able to borrow Money at 2 *per Cent.* below the legal Rate of Interest; and at another Time been obliged to pay as much above it, when neither the landed Gentleman, Merchant, or Tradesman (who are the People to determine natural Interest by) have at the same Time paid more, nor above 1 *per Cent.* less than the legal Rate; and many People have paid invariably one and the same Rate, and this either one of those last mentioned, or some intermediate one for the whole Time; so that no Inferences can justly be made from the Rate which the Government at any Time pays, as it oftner differs than agrees with the natural Rate of Interest here; nor is it possible they should keep Pace together, for a formidable Rebellion, or a War which threatens a Change of Government, will sink publick Credit below that of private People, especially when great Sums of Money lye in the Hands of a few Men; as every || one who<sup>28</sup> thinks at all about the Matter, naturally makes this Conclusion within himself, that Government cannot subsist unless Men's private Rights are in some Degree preserved; and that whatever Changes or Revolutions of Government happen, his Estate or Fortune will never be taken from him, unless he has been very active on the losing Side of the Question; and consequently, if he runs any Hazard of forfeiting his Estate, by

lending the Government Money, he will have a Praemium of Risque adequate to it, over and above his Interest. On the contrary in Times of Peace, or when there is no dangerous War carrying on, and Interest is lower in *Holland*, &c. than here, the Government will always be able to borrow Money lower than the natural Rate of Interest in this Country, so long as publick Faith is preserved inviolable, and the national Debt does not increase beyond a Probability of being discharged by a frugal Management of the publick Revenues, for these are both essential to the Preservation of publick Credit, and though the Government has hitherto, and it is to be hoped always will, meet with a Degree of Confidence both at Home and Abroad, equal to the Justness of its Intentions; yet these will always gain or lose Weight according as putting them in Execution becomes more or less easily practicable; for Men who lend, will be satisfied about the Ability as well as the Integrity of a Borrower, before they part with their Money, and will be sure to make him pay higher for it, when any Degree of Risque appears, however just his Designs may be: And this is a Consideration, which, I am apt to think, will make some People less inclinable to take 3 *per Cent.* Interest for their Money from the Government now, than they were <sup>29</sup>ten Years || ago, when the national Debt was above thirty Millions less.

I know there are some People who lay great Stress upon the Payment of the national Debt, and say, if that was discharged it would make Interest much lower than it is at present, by bringing more Money into Trade; but if we consider the Matter a little, it will be found, that paying the Debt of the Nation will, in all Probability, raise, and not lower, the Rate of Interest; and instead of bringing more Money into Trade, will carry all, or most of that which is already in Trade, out of the Nation; for such Part of the publick Debt as is owing to Foreigners, must be paid by Coin, or Bullion, which must be sent from hence, or from other Countries that owe Money to this, for there is no other Way by which it can be paid.

Suppose then, that twenty Millions of the national Debt, due to the *Dutch, Swiss, &c.* is to be paid in twenty Years; this will not bring more Money into Trade, but take so much out of it, as there is little Reason to think the general Balance of Trade will answer the Deficiency of, especially when to this annual Export of a Million is added the Interest of what remains undischarged, which must be sent abroad as well as the other; so that till Foreigners are repaid all they have lent the Nation, Interest must rather rise than fall, by lessening the national Debt, if it has any Dependence on the Quantity of Money employed in Trade.

Nor can I find there is any Reason to expect, that when this Part of the publick Debt is discharged, the Payment of the other Part, due to People in *Great Britain*, will cause any Fall in the Rate of Interest; for it cannot bring more Money || 30 into Trade than what is in the Nation, and all of that which belongs to it, and is intended to be so employed, is already in Trade. If indeed there were Mines of Gold and Silver in the Nation, from whence the Government could at pleasure extract a Quantity of those Metals, sufficient to pay what the publick owes to private People here, the Discharge of the national Debt would no doubt, bring more Money into Trade; but since the Government has no such Mines, nor any Method of getting Money, but by Taxes, and Imposts levied upon land, or Commodities produced, or consumed here, I cannot see how it can possibly bring more Money into Trade.

This Debt can be paid by no other Method, but that of raising more Money by Taxes, than what is sufficient to answer the publick Expences. Suppose then, that the State of the Nation was such as to admit of a Million of Money being raised every Year, more than the current Expences required; and that this Million, so raised, was to be applied to pay off the national Debt; What will follow from hence in Respect of the Quantity of Money employed in Trade? Not an Increase, nor yet a Decrease, but only that there will be just the same Sum as before; so soon as the People who have received their Debts can

either lend their Money to others to trade with, or engage in Trade themselves; for all the Difference which paying this Million of Money can make, is, a Change of Hands in Trade: Had it not been levied and consequently not paid, the Trade of the Nation would have been still carried on by the same People; but being paid, it will bring a Number of Men in Trade who were not engaged in it before; and there will be Room for them and their Money, without depriving those of a Livelihood who were || before settled in Trade; though particular Hardships and Inconveniences will nevertheless be felt; for it is impossible to re-distribute this Money in Trade in the same manner as before, and consequently some of those who have received their Debts, will be at a Loss how to dispose of their Money; but most of all, the Widow and the Fatherless, who have no other Means of living than by the Interest of their Money: For they must be forced to seek private Securities, and hazard their all, upon the Honesty and Care of particular Men; and therefore it is much to be wished, that when the National Debt is discharged, there may be found some better kind of Security for this helpless Part of Society.

From this Increase of Traders it may be thought, the Payment of the publick Debt will lower the Rate of Interest, though it does not bring more Money into Trade; but if we consider, how much cheaper a Reduction of Taxes, will make the Commodities and Labour of this Country, than they are at present, and consequently how much greater the Demand will be for them abroad; there will be little Reason to apprehend a Fall in the Rate of Interest; but on the contrary, rather a Rise, by increasing the Trade of the Nation beyond what the Payment of the national Debt, will increase the Number of Traders.

All Reasoning about natural Interest from the Rate which the Government pays for Money, is, and unavoidably must be fallacious; Experience has shewn us, they neither have agreed, nor preserved a Correspondence with each other; and Reason tells us they never can; for the one has its Foundation in Profit, and the other in Necessity; the former of which has

Bounds, but the latter none: The Gentleman who borrows Money to || improve his Land, and the Merchant or Trades-<sup>32</sup> man who borrow to carry on Trade, have Limits beyond which they will not go; if they can get 10 *per Cent.* by Money, they may give 5 *per Cent.* for it; but they will not give 10; whereas he who borrows through Necessity, has nothing else to determine by, and this admits of no Rule at all; the Law cannot govern where it prevails; for if it could, the Government would never have gone beyond the Rule which is prescribed for private Men; but Necessity, whether publick or private, has no Law.

From what has been said, I think it is evident, that neither publick nor private Debts, have raised, or can raise, the natural Rate of Interest. The next Thing to be considered, is, whether the Proportion which Money bears to Trade governs Interest: But previous to this, I cannot help remarking, that though Mr. *Locke* looks upon Debts as a principal governing Cause of the Rate of Interest, he nevertheless has Recourse to a Scarcity of Money to account for that Rise, which, according to his Position, should be produced by the Quantity of Debts alone; for he says, (*Extract 3.*) "But this seldom happening, "that all, or the greatest Part, of the Creditors do at once call "for their Money, unless it be in some great and general "Danger, is less and seldomer felt, than the following, unless "where the Debts of the People are grown to a greater Propor- "tion; for that, constantly causing more Borrowers than "there can be Lenders, will make Money scarce, and con- "sequently Interest high." Now if Debts have so great an In- fluence over the Rate of Interest as he attributes to them, what Occasion is there for bringing in a Scarcity of Money to their Aid? Or if it be a Scarcity of Money which || produces the <sup>33</sup> Rise, and Debts have no other Concern in it, than as they contribute to produce a Scarcity of Money, why is that called Essential to the Rise of Interest, which is not so? For Debt in this Case is not essential, since the same Scarcity of Money might have been, without any Increase of Debt; it is well known there are more Debts owing in *Great-Britain* and *Hol-*

*land*, than there is Money to pay them with, and yet there is no Scarcity of Money in either Country; and it is obvious enough from past Experience, that an open Trade with *France* would cause a Scarcity of Money here, and yet it would not produce an Increase of Debt, (at least none that can be of Weight in this Case:) For the *French* would take care to be paid for all this Nation had from them; and it would be as much every Man's Care here, to be paid for what his Neighbours bought of him, as if there had been no such open Trade; so that the Quantity of Debts in a Country cannot be an essential governing Cause of Interest; if, according to what Mr. *Locke* says, they raise the Rate of it, by making Money scarce; because there may as well be much Money where there is much Debt, as little Money where there is little Debt, and consequently, high or low Interest in either Case.

Nor can I think the Scarcity of Money, which Mr. *Locke* has supposed to be in the Island of *Bermudas*, will admit of the Inference he has drawn from it, even though his Position was just; for though it be true that Money would be scarce there, yet, we must not mistake a particular Scarcity for a general one; for there is a vast Difference between only a Number of Borrowers wanting Money to pay their Creditors, and there being an universal Scarcity of Money among all  
34 Kinds of || People, as well those who are not Borrowers, as those who are.

The first kind of Scarcity is to be found in all Countries, and at all Times, where there is any borrowing at all; for Men don't borrow till they want, and consequently, if what they borrow is suddenly called for again, they must find Money scarce when they are to pay their Debts: Because by so doing, their Affairs will be again involved in that Confusion and Distress; from which the Use of the Money borrowed would in time have relieved them; or they be brought into Difficulties, which, if they had not borrowed Money, they had never known; and consequently Money being scarce with Borrowers, when they are suddenly called upon to pay it, is no Argument for Interest being higher at one time than another.

The second kind of Scarcity is the only one which can be properly so called; for it would be unjust to say, there was a Scarcity of Money in *Great Britain*, because there are a Number of extravagant Borrowers in it, with whom Money is a scarce Commodity; as it might by the same Rule be said, there was a Scarcity of Wheat in a plentiful Year, because a Number of People through Extravagance had not Bread<sup>1</sup> to eat; and yet this is the kind of Scarcity which Mr. *Locke* says would raise the Rate of Interest; for he supposed, in the Case before-mentioned of *Bermudas*, that the 10,000 *l.* which remained in the Island, was sufficient to carry on the Trade of it, and consequently the Scarcity of Money must be confined to the extravagant Borrowers.

Now by what means the Planters calling in this 10,000 *l.* could produce such a Scarcity of Money, as would raise the Rate of Interest (supposing it depended on the Quantity of Money) I am quite || at a Loss to determine; for Men who call 35 in their Money, don't let it lie idle; but either lend it again to other People, or employ it in Trade themselves; one of which the Planters must be supposed to do; and the Quantity of Money circulating in the Island, being the same after, as before the Recall; it would be quite indifferent in respect of the Rate of Interest, whether *Peter* and *James*, or *Richard* and *Thomas* were the Persons to whom it was lent; or whether the ten Planters employed the greatest Part of it in Trade themselves; As it is not calling Money out of *Peter's* and *James's* Hands, and putting it into *Richard's* and *Thomas's*, or taking it from a Borrower and returning it to a Lender, but taking it out of the Course of Circulation, or out of a Country, which makes Money scarce.

#### ON THE QUANTITY OF MONEY.

“But the natural Fall of Interest, is the Effect of the Increase of Money, (*Extract 1.*)

“Secondly, That, which constantly raises the natural Interest of Money, is, when Money is little, in proportion to “the Trade of a Country, (*Extract 3.*)”

"The natural Value of Money, as it is apt to yield such an yearly Income by Interest, depends on the whole Quantity of the then passing Money of the Kingdom, in proportion to the whole Trade of the Kingdom, *i. e.* the general Vent of all the Commodities, (*Extract. 12.*)"

As the second of these Positions contains nothing but what is comprehended in the third, they might all three be considered as one only; but since Mr. || *Locke* has introduced the Necessity of there being so much Money in a Country as will bear a certain Proportion to the Trade of it, I think it will be necessary to consider this Matter seperately; for though it may be said he has fixed the Proportion, yet it is so done, that I believe no Man will from thence be able to find out what Sum of Money will be sufficient to manage the Trade of this, or, of any other Country; for either two, four, eight, or sixteen Millions, will do equally well, according to the Rules he has laid down, which are as follow, (*Extract 7.*)

Less than one fiftieth Part of the Labourer's Wages, one fourth Part of the Landholder's yearly Revenue, and one twentieth Part of the Broker's yearly Returns in ready Money, cannot well be thought sufficient to drive the Trade of any Country; but it cannot be imagined that less than one Moiety of this can be enough to move the several Wheels of Trade, and keep up Commerce in that Life and thriving Posture it should be, and how much the ready Cash of any Country is short of this proportion, so much must the Trade be impaired and hindered for Want of Money.

Which of these Computations comes nearest to Truth, I will not undertake to determine, as Mr. *Locke* himself has not done it, nor is it material, but as one of them must be fixed on, I shall take the former.

The Rule says, less than one fiftieth Part of the Labourer's Wages, one fourth Part of the Landholder's yearly Revenue, and one twentieth Part of the Broker's yearly Returns in ready Money, cannot well be thought sufficient to drive the Trade of any Country; and the Conclusion which follows, is,

that how much the ready Cash of any Country is short of this Proportion, so much || the Trade be impaired and hindered<sup>37</sup> for want of Money.

I should be glad to know, what the fiftieth Part of the Labourer's Wages, the fourth Part of the Landholder's yearly Revenue, and the twentieth Part of the Broker's yearly Returns, are; as the Money they came to, must either be a fixed and invariable Sum, or it will be impossible to find out by them, what Quantity of Money will drive the Trade of any Country; for if they vary, as every Man knows they do, the Proportion of Money which is to be determined by them, will vary also; and consequently the Rule will not enable one to find out how much Money will answer the Purposes of Trade.

The fiftieth Part of a Labourer's Wages, may at one Time be 1s. 3d. at another 2 s. 6d. at a third 5s. and at a fourth 10s. and so of the Landholder and Broker; and this or something near it, has been the Case in this Country in different Ages, as appears by *Bishop Fleetwood's Chronicon Preciosum*<sup>38</sup>: If therefore, according to Mr. Locke's Rule, we are to make Inquiry what Sum of Money will be sufficient to carry on the Trade of *Great-Britain*, the Answer will be, either two, four, eight, or sixteen Millions of Money; supposing that when the fiftieth Part of the Labourer's Wages was 1s. 3d. there were two Millions of Money current here, and that the Number of People, and Quantity of Trade were the same at all those different Periods, which must be admitted as well for him as me, though the Fact was otherwise.

Proportion and Disproportion between the Money and Trade of a Country, are Things we may talk of, but it is to very little Purpose: For the Value of Money as an exchangeable Commodity, rising and falling according as its Quantity alters, a greater Sum of it will do nothing in the Payment of Labourer's Wages, Landholder's yearly Revenues, or Broker's trading, when Money is plenty, but what a lesser Sum will do as well when it is scarce; and consequently there is no saying where Proportion ends, or Disproportion begins, in this Case.

If Gold and Silver would either feed or cloath Men, a certain and determinate Quantity of them would always be wanted; and if the Quantity to be had differed from it, there would undoubtedly be a Disproportion; but Gold and Silver will neither do the one nor the other, nor answer any Purpose as Money to which a certain Quantity of them is essential; a Farmer who now a Days receives four Shillings for a Bushel of Wheat, has no Advantage from selling it at this Price, more than what a Farmer who lived two hundred Years ago, had from selling his Bushel of Weat for two Shillings; (supposing there was then so little Money in the Nation, as to make Wheat two Shillings a Bushel) for at that Time, two Shillings would go as far, in paying Labourers Wages, Rent of Land, or in providing a Man with Meat, Drink, or Cloaths, as four Shillings will now. It cannot therefore be justly said, there is no want of Money to carry on the Trade of the Nation at present, because there is twice as much current now, as there was two hundred Years ago; or that there was a Want of Money then, because there was only half as much current as there is now; the Truth is, that the then Inhabitants of this Island either did, or might, carry on as much home Trade with eight Millions of Money, as the present Inhabitants of it can now carry on with sixteen Millions; and to say otherwise, is  
<sup>39</sup>to deny || that the Value of Money, as an exchangeable Commodity, is governed by its Quantity.

As to foreign Trade, there is little occasion for having Recourse to it in an Inquiry of this Sort; since, according to Sir *William Petty's* Account,<sup>40</sup> the foreign Trade of this Nation scarcely makes a Sixth Part of its whole Trade; so that what is true of home Trade, may be said to be true of the whole, as it is so of by far the greatest Part; and upon Enquiry it will be found, that this Nation, with only eight Millions of Money, would have more foreign Trade than with sixteen Millions; and whoever thinks otherwise, might, with as much Reason think that making our Commodities cheaper, would not increase the Demand for them abroad.

The next Thing to be inquired into, is, whether the natural Rate of Interest in a Country, depends on the whole Quantity of the then passing Money in it, in Proportion to the whole Trade of it; or, in other Words, whether Interest does, and necessarily must, rise and fall in a Country, in Proportion as the Quantity of current Money in such Country diminishes or increases in respect of the Trade of it; for this is what Mr. *Locke* in effect says, (*Extract 12*) in the following Words, "But that which causes increase of Profit to the Borrower of Money, is the less Quantity of Money in proportion of Trade, "or to the Vent of all Commodities taken together, and *vice versa.*" And this he lays down as a constant and general Rule; for in the same *Extract* he says, "That though any single Man's Necessity and Want of Money, being known, "may make him pay dearer for it; yet this is but a particular Case, that does not at the same Time alter this constant and general Rule." ||

40

The Method which Mr. *Locke* has made use of for determining whether the Money in a Country increases or diminishes in respect of the Trade of it, by the Price of Wheat, I agree with him in thinking is the best, for the Reasons he has given (See *Extract 11* and *13*) and for another Reason which has started up since his Time, and this is, a great Increase of Taxes, which have very much raised the Prices of Commodities in general, but have affected none less than the Price of Wheat, which neither has any immediate Tax on it, nor is much influenced by the Taxes on other Commodities; and therefore is the most proper to shew how far the Quantity of Money in this Nation has altered with respect to the Trade of it; for there is no other Commodity of such general use as Wheat, which has been so little altered by Taxes. But the Misfortune is, that the Price of it has not been collected for so long a Series of Years as I could wish.

Bishop *Fleetwood* has given the true Market Price of it for only sixty successive Years, commencing 1646, and ending 1705: He has indeed given the Prices of it at different Times

for about 500 Years before that Interval; but whoever observes the great Interruptions or Variations which there are in them, will I believe conclude they are of very little Service to the present Purpose: There is only one Part of them which can safely be quoted to shew the then Value of Money by the Price of Wheat; and this for about ten Years between 1444 and 1460, in which it was neither very scarce nor very plentiful; and though the Houses of *York* and *Lancaster* were then at War, and there are some Interruptions of Time, yet as they are but small ones, I think this may be admitted into account.||

The Price of Wheat for about twenty Years last past I have collected; it is not so correct as I could wish, but it is near the matter; so that though we cannot from these Materials find out every successive Alteration which there has been in the Value of Money for the last 300 Years, we may nevertheless know the Value of it at five different Periods, which will be sufficient, as all the Alterations which are known to have been in the natural Rate of Interest in *England* come within that Term.

The Price of Wheat *per Quarter*, at a medium, for ten years between 1444 and 1460 by Bishop *Fleetwood's* Account, was six Shillings and three pence, which sum of the Money then coined, was intrinsically worth Twlve Shillings and one Penny of our present Money, according to *Martin Folkes Esquire's* Account,<sup>8</sup> in his Table of *English Silver Coins*, who makes the Value of the then nominal Pound Sterling, to be to that of the present one, as 1.937 to 1.000.

The Price of Wheat *per Quarter* at a Medium of twenty Years commencing 1646, and ending 1665, was 2*l.* 17*s.* 5*d.*  $\frac{4}{10}$  of the Money then coined, which was exactly of the same Value as our present Money; there having been no Alteration in the nominal pound Sterling since the forty third year of the Reign of Queen *Elizabeth*.

The price of it at a medium of twenty years beginning 1666 and ending 1685, was 2*l.* 6*s.* 3*d.*  $\frac{3}{4}$  per Quarter.

The price of it for the third twenty Years, from 1686 to 1705, upon an Average, was  $2\ l.\ 5s.\ 9d.\frac{3}{4}$  per Quarter.

And the price of it at Bear Key for twenty years last past, has been at a Medium rather less than  $1\ l.\ 8s.\ 6d.$  per Quarter.

These being the prices of Wheat for the several || Intervals 43 of time beforementioned, we have from them the proportions which the Quantity of current Money in the Nation has borne to the Trade of it,

For	$\left\{ \begin{matrix} 17 \\ 20 \\ 20 \\ 20 \\ 20 \end{matrix} \right\}$	Years from	$\left\{ \begin{matrix} 1444 \\ 1646 \\ 1666 \\ 1686 \\ 1729 \end{matrix} \right\}$	to	$\left\{ \begin{matrix} 1460 \\ 1665 \\ 1685 \\ 1705 \\ 1748 \end{matrix} \right\}$
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How far the Rate of Interest at these several Intervals has agreed with Mr. *Locke's* rule, will be very obvious from the following Table; wherein I have inserted the legal Rate of Interest, and also the natural Rate of it, which I have supposed to be one *per Cent.* lower as, it seems impossible to fix it exactly; for even at present, there is so much difference between the Rates of Interest paid by private People; and there may probably in Times past be Instances of greater differences, but it is reasonable to think they are equalled by Numbers, having paid the legal Rate, (I mean by Agreement, and not by the Force of Law,) so that if we take it in general, one *per Cent.* Difference will be near the Truth, for the legal Rate has been made to follow the natural one. In this Table I have likewise inserted the Rate at which natural Interest should have been, if it had risen and fallen in proportion as the Quantity of Money altered in respect of the Trade of the Nation. And I think it will be necessary here to mention, the result of an Inquiry I made, in order to know whether the decrease of Money in proportion to Trade, indicated by the Fall in the Price of Wheat, was confirmed by any other Commodity of constant and general Use, and little Influenced by Taxes; and I find it is confirmed by the Price of Barley, || 43 which has decreased for a hundred Years last past, and nearly in the same Proportion as that of Wheat has done; and this

with what Mr. *Locke* has said, appear to me sufficient Reasons for thinking this fall in the Price of Wheat is at least principally, if not intirely owing to a decrease in the Quantity of Current Money in proportion to Trade; which however unwilling any one may be to believe, I cannot see Reasons to doubt; for if it was owing to there being but little Money in the Nation, that Wheat sold for several Hundred Years at three, six, nine, and twelve Shillings a Quarter, (which I never yet heard any one dispute) it must be owing to there being more Money a hundred years ago in proportion to Trade, that Wheat sold dearer at that time, than it has since done; or the Value of Money as an exchangeable Commodity cannot be governed by its Quantity; which I believe no one will assert, or say it is so in respect of Wheat and Barley, when past experience has shewn, these Comodities as well as others, sold dearer for several Hundred Years as as the Quantity of Money increased; and it should be remember'd that so far as the Value of Wheat depends upon Labour, and the Expence of living, it ought to be dearer now than it was a Hundred Years ago, by as much as Taxes and Fashion have raised the Price of living to Labourers and Farmers since that Time, above 44 what the Quantity of Money would make it. ||

A TABLE OF RATES OF INTEREST, AND PRICES OF WHEAT.

The Value of Money as an exchangeable Commodity, or its Proportion to Trade, determined by the Price of Wheat.	Year from and to which the Price is taken at a Medium.	Price in present Money.	l. s. d.	Legal Rate of Interest at the different Intervals.	Natural Rate of Interest at the different Intervals.	If the Proportion which Money has borne to Trade for 20 Years last past was the Reason why natural Interest has been 4 per Ct. it should, according to Mr. <i>Locke's</i> Rule, have altered as follows.
	1444 to 1460	0 12 1		Not fixed by Law.	Supposed to be about 10 per Cent.	9½
	1646 to 1665	2 17 5½	8		7	2
	1666 to 1685	2 6 3¾	6		5	2½
	1686 to 1705	2 5 9¾	6		5	2½
	1729 to 1748	1 8 6	5		4	4

From this Table it appears, that if the Proportion which Money here has borne to Trade for twenty Years last past was the Reason why natural Interest has been four *per Cent.* the natural Rate of it for forty Years from 1666 to 1705 ought to have been only two and a half *per Cent.* according to the Proportion which Money bore to Trade for that time, whereas it was double the Sum; by the same Rule, natural Interest from 1646 to 1665 should have been only two *per Cent.* and it was in Fact about seven *per Cent.* From 1444 to 1460 it ought to have been nine and a half *per Cent.* which comes within half *per Cent.* of the supposed Rate of that Time, for it was never regulated by Law till the thirty seventh of *Henry VIII.* but this will not prove the Rule to be true, even though we admit ten or nine and a half *per Cent.* was the actual Rate of Interest during that Interval, for if the || then Agreement<sup>45</sup> of the Rate of Interest with the Rule, was the necessary Consequence of the Proportion which Money then bore to Trade, it could never have varied from it, in the Manner it has done, during the other Intervals, in which it neither agreed nor kept any Sort of Correspondence with the Rule; but on the contrary fell gradually for a Hundred Years, whilst the Proportion of Money to Trade was Decreasing; and instead of being double the Rate now, that it was a Hundred Years ago, it is only about half as much as it was then, and this I think undeniably proves Mr. *Locke's* Rule is wrong; and had he been as particular in his arguments to prove or support it, as he has been in proving, that the Value of Money as an exchangable Commodity depends upon the Proportion its Quantity bears to Trade, he would have found his Rule contradicted by the Alterations in Money and Interest that came within the Time which he himself speaks of: And this is the Reign of Queen *Elizabeth*, and the Time he wrote; for Extract sixteen he says, there never was brought into *England*, so great an Increase of Wealth since, as in Queen *Elizabeth's*, King *James I.* and King *Charles 1st's*. Time; and this is confirmed by the Price of Wheat in the last of those three Reigns, for it has never sold

for so much Money since ; he also speaks of Money being scarce when he wrote, and the Price of Wheat at that Time shews, there was then less Money in the Nation in Proportion to Trade, than there was fifty Years before.

And during this Interval the natural Rate of Interest fell about two *per Cent.* so that if Mr. *Locke* had considered these Facts, and compared his Rule with them, he would have found it was not true. And there is another method by which the 46 Rule might have been tried, which would || have given great Room to doubt the Truth of it, and this is, by inquiring what the Rate of Interest must have been for some Hundred Years backwards, if it depended upon the Proportion of Money to Trade : for if the Quantity of Money which made Wheat 2*l.* 17*s.* 5*d.* *per Quarter* upon an Average of twenty Years, made natural Interest seven *per Cent.* it must have been fourteen *per Cent.* when Wheat Sold for 1*l.* 8*s.* 8*d.*  $\frac{1}{2}$  *per Quarter.* At twenty-eight *per Cent.* when Wheat sold for *l.* 14*s.* 4*d.*  $\frac{1}{2}$  and fifty six *per Cent.* when Wheat was 7*s.* 2*d.* and a Hundred and twelve *per Cent.* when Wheat was 3*s.* 7*d.* *per Quarter*; and it has sold for less Money since the Conquest ; and yet no one can imagine any Man ever paid 112*l.* for the Use of 100*l.* for a Year ; or that Interest was ever so high as fifty six or twenty eight *per Cent.*

Whether Mr. *Locke* would have applied this Rule in the manner I have here done, or not, I will not venture to say, but I cannot think of any other way to apply it, for he says, the Rate of Interest depends on the whole Quantity of current Money in Proportion to Trade ; and if so, Interest must alter as this Proportion changes ; and if it alters, it must either alter equally with Money as above ; or else unequally, and then I would be glad to know, what the degree of Inequality is, and how it is found, as I cannot at present see any Reason for its being one more than another. But this is of no Consequence here ; as Experience has shewn, the natural Rate of Interest neither alters equally nor unequally with the Quantity of Money in respect of Trade, nor has any Dependence on the

Proportion which the Money of a Country bears to the Debts of its Inhabitants one amongst another, it will therefore be necessary to || find other Rules than these to Account for the <sup>47</sup> Rate of Interest, as it is plain they don't govern it; and this is what I shall now endeavour to do.

*ON THE GOVERNING CAUSES OF THE NATURAL RATE OF INTEREST.*

In order to find out the Causes on which the natural Rate of Interest depend, I think it will be necessary to consider what the Reasons for paying Interest are, as this seems to me to be the most natural and certain method of Inquiry in the present Case, for when we know the Foundation upon which Interest is built, we shall be the better able to determine what governs it.

And first, of the Reasons for paying Interest. As the Proprietor of any Commodity has undoubtedly the same Right to all the Advantages it is capable of affording, as he has to the thing itself, it is certain, that whoever he transfers any of these Advantages to, is as much under an Obligation to him, as if the Proprietor had given him the Commodity from whence they arise; because things are no otherwise Valuable, than as they are Useful, and he who has Benefited by the Use or Possession of any thing, may be justly said to have received Part of the Value of it, and Consequently to be in Debt on this Account to the Person to whom of Right the thing belongs.

Thus, he who borrows 100 *l.* in Money of his Neighbour for a Year, by the Use of which in Trade or otherwise for that Time, his Neighbour could, and he may, make a Profit of 5 *l.* over and above paying for all the Trouble and Risque produced thereby; is as much 105 *l.* in his || Neighbour's Debt, as he <sup>48</sup> would have been if he had actually borrow'd so much Money of him, and paid it again immediately after it was Borrow'd; for though in one Case he receives 105 *l.* and in the other only 100 *l.* yet by having the Use of the latter Sum for a Year, he gains 5 *l.* more than he has a Right to, which is in Effect the

same thing, as though he had receiv'd so much more from his Neighbour; because this 5*l.* really belongs to him, as much as the 100*l.* does, by the Use of which it was gained; and Consequently he ought to be paid the one as well as the other.

By the same Rule, if *Peter* borrows one hundred Quarters of Wheat from *James* for a Year, and employs it in Trade or otherwise, with as much Advantage as before-mentioned, he is as really one hundred and five Quarters of Wheat in *James's* Debt at the Year's End, as the other Man was 105*l.* in his Neighbour's Debt, tho' he borrow'd only 100*l.* from him; nor would it make the Claims of the Lenders for 105*l.* in Money, or one hundred five Quarters of Wheat, at all less just, if the Borrowers should not be able to make the supposed Profit, nor even any Profit at all by the Money or the Wheat; for the Lenders having it actually, or at least apparently, in their Power, to make a clear Profit of 5 *per Cent.* by those Commodities, had a Right to demand such a Præmium for them from the Borrowers, who, if they had got above 5 *per Cent.* neither would, nor ought to have paid more than they agreed for, and therefore, though they should not get so much, they ought nevertheless to abide by their Agreement.

What has been said of Money and Wheat, is equally applicable to all other Commodities, || which are capable of producing Profit to a Borrower, by the consumption, Use, or Possession of them; and it is equally applicable to those who borrow through Necessity, and without any View or Intention of Gain; for a Man's wanting Money or Wheat to feed his Extravagance, or supply his present Necessity, is not a Reason why they who can provide him with either, are not to take Interest for them, any more than it is for their not having their Principal returned, as Lenders have the same Right to the one as the other; *for* the Equitableness of taking Interest, depends not upon a Man's making or not making Profit by what he borrows, but upon its being capable of producing Profit if rightly employed. It cannot therefore be difficult to determine what the natural Rate of Interest immediately depends

on; for, if that which Men pay as Interest for the Use of what they borrow, be a Part of the Profits it is capable of producing, this Interest must always be govern'd by those Profits.

And daily Experience shews is it so, for the Question which naturally arises in every Man's Breast, when he either lends or borrows, is, what can be got by the Thing lent or borrow'd? If it be a great deal, Reason tells him he ought to receive or pay a high Rate of Interest for the Use of it; if only a little, that he ought to receive or pay only a low Rate of Interest for it: and the only Thing which any Man can be in doubt about on this Occasion, is, what Proportion of these Profits do of Right belong to the Borrower, and what to the Lender; and this there is no other Method of determining, then by the Opinions of Borrowers and Lenders in general; for Right and Wrong in this Respect, are only what common Consent makes so: Mr. *Locke* || says, (Extract 4th) They divide the Profits equally 50 between them, which, I believe, is generally the Case; and if so, the equitable Division of Profits made by the Use of Things borrowed, is, that Lenders should have one half, and Borrowers the other.

This Rule of dividing Profits is not however to be apply'd particularly to every Lender and Borrower, but to Lenders and Borrowers in general; for one Man's having such remarkable Skill in his Profession, as to be able to get double the Profit by 100*l.* which others in the same Way make, is not a Reason why he should pay twice as much Interest for it, any more than another Man's being so ignorant of his Business, as not to be able to get above half the common Profits, is a Reason why he should pay only half the common Rate of Interest; remarkably great and small Gains are the Rewards of Skill, and the Want of Understanding, which Lenders have nothing at all to do with; for as they will not suffer by the one, they ought not to benefit by the other.

What has been said of particular Men in the same Business is applicable to particular Sorts of Business; if the Merchants or Tradesmen employed in any one Branch of Trade, get more

by what they borrow than the common Profits made by other Merchants and Tradesmen of the same Country, the extraordinary Gain is theirs; though it required only common Skill and Understanding to get it, and not the Lenders who supplied them with Money: I say it is equitably as well as legally the Property of the Borrowers; for the Lenders would not have lent their Money, to carry on any Branch of Trade upon lower Terms, than would admit of paying so much as the 51 common Rate of Interest; and therefore they || ought not to receive more than that, whatever Advantages may be made by their Money.

As it appears from the foregoing Considerations, that Interest is founded upon Profit, which common Consent seems to have fixed the Division of, equally between Lenders and Borrowers; I think it may safely be laid down for a Rule, that,

The natural Rate of Interest is governed by the Profits of Trade to Particulars.

And this I believe, will be found true in all civilised Ages and Countries; I make the Distinction of civilised, because lending cannot subsist unless Men have a Confidence in each other, and this it is to be feared, would in general be very slender, without the Help of Religion and Laws, the latter of which at least, must be supposed to have their proper Force, or there can be little lending. | If then it be asked, why Interest was 8 *per cent.* in *England* a hundred Years ago, and is now only 4 *per cent.* or why it has fallen nearly in the same Proportion in *Holland*, during that Interval, as it has done in *England*; the Answer to both is, that Merchants and Tradesmen in general, as well there as here, did then get double the Profits they now make.

Or, if it be asked, why Interest which is now about 4 *per cent.* in this Country, should not be the same throughout all trading Countries, instead of being three *per cent.* in *Holland*; five and six *per cent.* in *France*, *Germany* and *Portugal*; seven, eight, and nine *per cent.* in the *West* and *East-Indies*, and

from ten to twelve *per cent.* in *Turkey*, one general Answer will do for the whole, which is, that the Profits of Trade in these several Countries differ from the Profits of Trade here, and so much as to produce all those different Rates of Interest. || | 52

But we must not stop here, for though these are the Causes which immediately govern the Rate of Interest, there are superior ones which govern them, and what they are is next to be inquired.

Mr. *Locke* says, (*Extract 12*) "That which causes Increase of Profit to the Borrower of Money, is the less Quantity of Money in Proportion to Trade, or to the Vent of all Commodities taken together, and *vice versa*." But this I have shewn by Experience is not true; for the Profits of Trade in *England* have been decreasing for one hundred Years last past; tho' the Proportion of Money to Trade, has during that Time been diminishing, and consequently they cannot be governed by it.

It must be owing to some other Reason than this, that Merchants and Tradesmen in general got 16 *per cent.* Profit by Trade one hundred Years ago, and can now get only 8 *per cent.* and what this Reason is, they are likeliest to know, who have been long in Trade, and have suffered most by the Change; for when Men find an Alteration to their Disadvantage, they will leave no Method untried to come at the Cause which produced it.

Let us inquire then of Merchants and Tradesmen, who have been many Years in Business, how it happens that their Profits are less now than they were when they first set out in the World, and I believe all or most of them will say it is owing either to an Increase of Traders or a Decrease of Trade, or to People in Trade lowering the Prices of their Commodities upon each other; which is the certain Consequence of such Alterations. And when once a Commodity is sold for less than the customary Profit by a few, || whether it be through Necessity to 53 get some Trade, or through Avarice to get most, others who

deal in it must either sell for the same Profit, or lose their Customers, and this by Degrees will make great Alterations in the Profits of Trade; for every Merchant or Tradesman, who begins Trade and does not succeed to the Business left by a Father, a Master, or some other Person, must find out something to induce People to give him a Preference, and so must he also who grasps at more than his Share of Trade; and this is generally, selling some of the Goods they deal in, cheaper than they are Sold by others. And as some such Avaritious Men must always be expected, and all Branches of Trade must have a constant Succession of young Beginners, and many of them have no Business but what they Gain from others by Underselling them; it is Plain, that this must have contributed much, towards Reducing the Profits of Trade in General to half what they were a Hundred Years ago; nor will it cease to Influence them till they are Reduced to their lowest Ebb.

The general Profits of Trade are likewise liable to be altered by a Decrease of Trade, as well as by an Increase, or Change of Traders; for it is much the same which alters, if a different Proportion between the one and the other be produced by the Alteration, for it is this, and not a Proportional Increase or Decrease of both, which Raises or Lowers the Profits of Trade.

How far a Decrease of Trade has contributed to reduce the Profits of *English* Merchants and Tradesmen within the Time before-mentioned cannot exactly be determined; but if we consider, that most of the foreign Trade in Europe a Hundred || Years ago, was carried on by the *English*, and *Dutch*; and that they are now Rivalled in some respect or other by the *French*, *Swedes*, *Danes*, &c. we cannot conclude otherwise of the Matter, than that this fall of Profits has been principally owing to those Nations interfering with this, in Foreign Trade; especially if we consider further, how most of the Princes and States in Europe, seeing the Importance of Commerce by the Increase of Power and Wealth of *England* and *Holland*, have Endeavoured to improve every natural means of Trade, that they may have the less Occasion for the Commodities of other

Countries, or be able to purchase them upon Terms less Disadvantageous to themselves.

These I take to be the chief Causes which have reduced the Profits of Trade in general within a Hundred Years last past; and to these may be added a third, which though far less considerable yet I think it has contributed something to the change; and this is the *East-India* Trade, which, as it is now carried on, is advantageous to this and other Nations, but I very much doubt its being so to *Europe* in general. For if the Value (*i. e.* Cost and Freight) of all the unwrought and full Manufactured Commodities sent to *East-India* by the *English, Dutch, French, &c.* falls short of Purchasing all the Commodities brought from thence; which, from the vast Quantities of Silver yearly exported by all the *European* Nations who Trade there, over and above what the Gold returned is Worth, seems to be the Case; it is certain, that though these particular Nations may regain the Money they parted with, yet the *Europeans* upon a general Ballance with the *East-Indians* are losers; || because *Europe* contributes more to the Trade of 55 *Asia*, than *Asia* does to that of *Europe*; and the Difference is so much lost in the Quantity of Labour to the trading People of *Europe*, many of whom must by this means remain a burthen on their respective Countries; and the Labour so lost be paid for in Specie to the *East-Indians* likewise, which makes the Loss double; and thus it is that the Riches of the *West-Indies*, are by the trading Nations of *Europe* carried to the *East-Indies*, without Producing any Advantages to the Trade of *Europe* in general, but on the contrary Disadvantages: for every piece of Silk, or Stuff brought from *East-India*, more than what the Commodities sent from *Europe* will purchase, is so much lost to the Manufacturers of some trading Country; for shift it how you will, it will certainly fix on some of them, and by Decreasing the Proportion of Trade must contribute to reduce the Profits of it as before-mentioned.

From what has been said on this Head, I deduce the following Rule;

6 That the Profits of Trade in general, are governed by the Proportion which the Number of Traders bears to the Quantity of Trade.

And this is in general confirmed by the fall of Interest in the several trading Countries of *Europe* within the last Hundred Years, in which the Number of Competitors for Foreign as well as Domestic Trade, has greatly increased, and by lowering the Profits of it, has lowered the Rate of Interest; and if we look into the different Countries of *Europe*, it will be found that the present Rates of Interest in them, and consequently the Profits of Trade, correspond with the Rule, for in *Holland* where the Number of People employ'd in || Trade, bears the greatest Proportion to the whole Number of Inhabitants, of any Country properly situated for Commerce, Interest is the lowest; and in *Great-Britain* which comes nearest to *Holland* in this respect, the Rate of Interest comes nearest to that of *Holland*; in *France*, *Portugal*, *Germany*, and *Spain*, where there is less Trade in proportion to the Numbers of People, Interest is higher than it is here; and in *Turkey*, where the Disproportion is still greater, Interest is higher than in any of the before-mentioned Countries.

As to the Rates of Interest received and paid in the different Colonies and Settlements in America, and in the *East* and *West-Indies*, I did not think it proper to mention them with those already spoke of; not that they contradict the Rule laid down, but because they are in general higher than the Rates of Interest in the different trading Countries of *Europe*; and the Reason why they are, and probably always will be so, I take to be this; their Trade depends very much upon *Europe*, and consequently is attended with greater Risks from the Sea, or Change of Climate, or both, than the Trade between Countries which are not so far distant from each other, and therefore it must either produce greater Profit, or Merchants would not engage in it; but Interest has nevertheless fallen in those Parts of the World, and will continue to do so, as the general Trade of *Europe* is closer driven, though, for the Reason before-

mentioned, I think Interest must always be higher in those Colonies and Settlements than it is at the same time in the Countries of *Europe* to which they respectively belong.

Having now shewn that the Profits of Trade are governed by the proportion which the Number of Traders bears to the Quantity of Trade; it will || next be necessary to find out what<sup>57</sup> governs the Proportion between Trade and Traders, and this I apprehend is to be done by considering what the Motives to Trading are.

The first and greatest Motive to trade is Necessity; for Nature has distributed the Necessaries and Conveniences of Life in such a manner, as makes it impossible for any Man to procure by his own Labour so many of them as are requisite for his living conveniently and agreeably; and there is no Method of remedying this Inconvenience without the Assistance of other People, but with that it may be done; for Peter being able to procure by his own Industry, more of some useful Things, and James more of others, than are required to satisfy their respective Wants: They have it equally in their Power to furnish each other with what their Labour falls short of procuring, by exchanging the Excess of such Things as they have, for a Sufficiency of those they want; and this Inability to subsist conveniently by our own Labour, is the first and chief Motive to Trade.

But this is not the only Inducement which Men have to traffick; for if it was, the Quantity of Trade in every Nation in proportion to the Numbers of its Inhabitants, or to its natural Fertility or Sterility, would be alike, which is far from being the Case; for in some Countries human Life is one constant Scene of Labour, and in others, it is scarcely any thing but Inactivity and Indolence, so that one would be apt to think Nature had inspired one Part of human Race with Industry and the other with Idleness; but the Difference arises from a lower Principle, it is Government, and not Nature, which makes Men thus to differ from each other: they labour for the present Day through Necessity, but where they extend

58 their Cares to || Futurity, it is from a Prospect of enjoying hereafter the Fruits of their present Industry, which they have not in all Places; and this is the Reason, why Men in one Country are very industrious, in another very lazy, and in a third, neither remarkable for the one nor the other.

And agreeable to this, we find by the low Rate of Interest in *Great-Britain* and *Holland*, where Government is free, and Mens private Rights are best preserved, that there are more Traders in Proportion to the Numbers of People those Countries contain, than there are either in *France*, *Portugal*, *Germany*, *Spain*, or any other Countries in *Europe*, where Government is arbitrary, and private Property is less secure. So true is that excellent Remark of Sir *William Temple's*, That "Trade "cannot grow or thrive to any great Degree, without a Con- "fidence both of publick and private Safety, and consequently "a Trust in the Government, from an Opinion of its Strength, "Wisdom, and Justice; which must be grounded either upon "the personal Virtues and Qualities of a Prince, or else upon "the Constitutions and Orders of a State." *Observations on the Netherlands*, p. 190."

These then are the Causes which govern the Pration between Trade and Traders.

- I. Natural Necessity.
- II. Liberty.
- III. The Preservation of Men's private Rights.
- IV. Publick Safety.

I. Of Natural Necessity. The necessary and useful Productions of Nature are so partially and unequally distributed 59 in different Countries, that it || is much to be doubted, whether there are any two Nations in *Europe* in which an equal Quantity of Labour would be required to enable a certain Number of People to live with the same Degree of Convenience, if they were to be confined to the Productions of that Country alone, and not receive any Helps from others, which I believe every one will agree in, who considers, there are no two Countries which furnish an equal Number of the Neces-

saries of Life in equal Plenty, and with the same Quantity of Labour; and that Mens Wants increase or diminish with the Severity or Temperateness of the Climate they live in: And consequently, the Proportion of Trade which the Inhabitants of different Countries are obliged to carry on through Necessity, cannot be the same, nor is it practicable to ascertain the Degree of Variation further than by the Degrees of Heat and Cold; from whence one may make this general Conclusion, that the Quantity of Labour required for the Maintenance of a certain number of People is greatest in cold Climates, and least in hot ones; for in the former, Men not only want more Cloaths, but the Earth more cultivating, than in the latter, where they have little Occasion for Cloaths, and may often be said to wear them more for Decency and Fashion, than through Necessity: And where the voluntary Productions of Nature are so great, that the Cultivation of Land is much less necessary. Thus for Example, those who live in the South Part of *Europe* can support themselves with less Labour, than those who inhabit the middle Part of it, and these can subsist with less Labour than the Inhabitants of the North Part of it. And now I am speaking of Necessity obliging some People to trade more, and others less, I cannot omit mentioning || one <sup>60</sup> kind of Necessity which is peculiar to *Holland*, and this arises from the Country being over-peopled; which, with the great Labour required to fence and drain their Land, makes their Necessity to trade greater than it is in any other Part of the habitable World.

II. Of Liberty. The Influence which the Enjoyment of Liberty has over Commerce, may in general be seen by such free Countries as are well situated for Commerce, having the most Trade in proportion to their Numbers of Inhabitants; but if we would see its greatest Effects, we must look into *Holland*, which, from the natural Quality of its Soil, and the Lowness, and consequently Unhealthiness of its Situation, is not a desirable Country; and yet so sweet is Liberty, that Men chuse rather to live on this free Spot, and submit to all

the natural Inconveniences and Disadvantages it lies under, than go where Nature, but not Liberty smiles.

III. Of the Preservation of Men's private Rights. As this is the natural Consequence of Liberty, dividing of them seems an unnecessary Distinction, but it is not so in this Case; for there are are Countries where Government is arbitrary, which sometimes carry on a much greater Proportion of Trade than Necessity requires; and this is owing to the personal Virtues or Policy of their Princes; who either from Principles of Justice and Humanity, or of Self-Interest, give that Protection to Subjects by their own Power, which in free Countries, is derived from Law, and this whilst it continues is an Encouragement for Men to be industrious, and engage in Trade; <sup>61</sup> but as their Security is only personal, and liable to and with a Prince's Life, and Trade cannot soon be made to alter its Course; their Views and Undertakings will be less extensive than in free Countries, where Men have better Security for their private Rights, and the Enjoyment of the Fruits of their Labour, than the mutable Will of an arbitrary Prince; and consequently Trade cannot thrive for any long Tract of Time, so well under the one as the other.

IV. Of publick Safety. What has been said of Liberty, and the Preservation of Mens private Rights is in some Measure applicable to publick Safety: For they are all Branches of one Tree, and contribute to produce the same Fruit, which is *private Safety*: And this is what all Men have some Degree of Confidence in, who trade further than Necessity obliges them; which they cannot have, when superior Force from without, threatens a general Ravage and Devastation; any more than they can when Tyranny or Anarchy prevail at home.

From what has been said concerning the Motives which induce Men to trade, I think this Conclusion may be made; that,

The Number of Traders in a Country is governed by the Necessity and Encouragement which there is to trade.

As I have now mentioned every thing concerning the Government of the Rate of Interest, which at present seems to me

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material, I shall conclude with a brief Repetition of my own Sentiments on the Matter, which are as follow:

That the natural Rate of Interest is governed by the Profits of Trade to Particulars.

That the Profits of Trade are governed by the Proportion which the Number of Traders bears to the Quantity of Trade. || 62

That the Number of Traders is governed by the Necessity and Encouragement which there is to trade.

This is the Light in which natural Interest appears to me; but if any thing can be offered which is better supported by Facts, I shall be ready to alter my Opinion whenever it appears.

F I N I S.



TO MINT  
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## NOTES

<sup>1</sup> (page 11) The extracts cited contain a number of minor verbal errors as well as numerous inaccuracies in the matter of punctuation, capitalization and paragraphing.

<sup>2</sup> (page 11) "Several essays in Political Arithmetick: The Titles of which follow in the Ensuing Pages" (London, 1699).

<sup>3</sup> (page 12) "Some considerations of the Consequences of the Lowering of Interest, and Raising the Value of Money. In a Letter to a Member of Parliament" (London, 1692).

The citations in Massie's text are to be found in the above edition of Locke's essay as follows: 2, p. 8; 3, pp. 10-11; 4, p. 13; 5, pp. 17-18; 6, p. 19; 7, pp. 40-41; 8, pp. 47-48; 9, p. 48; 10, pp. 53-54; 11, p. 61; 12, pp. 70-71; 13, pp. 71-73; 14, p. 80; 15, pp. 84-85; 16, pp. 105-106; 17, p. 124.

<sup>4</sup> (page 20) "Considerations upon a Reduction of the Land-Tax" (London, 1749), pp. 31, 51.

<sup>5</sup> (page 27) The Young Pretender was defeated at Culloden on April 16, 1746.

<sup>6</sup> (page 37) "Chronicon Preciosum: or, an Account of English Money, the Price of Corn, and Other Commodities, for the last 600 years. In a Letter to a Student in the University of Oxford" (London, 1707). A second edition was published in 1745.

<sup>7</sup> (page 38) "Political Arithmetick" (London, 1690), pp. 85, 112-113; in "Economic Writings" (ed. Hull; Cambridge, 1899), vol. i, pp. 297, 311.

<sup>8</sup> (page 40) "An Historical Account of English Money, from the Conquest, to the Present Time; including those of Scotland, from the Union of the two Kingdoms in King James I. The second edition, with great Additions and Improvements, Tables of Gold and Silver Money, and Six New Cuts" (London, 1745).

<sup>9</sup> (page 54) "Observations upon the United Provinces of the Netherlands"; in "The Works of Sir William Temple, Bar<sup>t</sup>." (Edinburgh, 1754), vol. i, pp. 1-157.





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